Dipping coal prices may strengthen SAIL's profitability

Company expects domestic demand to pick up after monsoon

ABHISHEK LAW

New Delhi, August 16

SAIL expects improved profitability from Q2 FY23 on, owing to a correction in imported coking coal prices and an anticipated post-monsoon pick-up in domestic demand.

According to Anil Kumar Tulsiani, Director (Finance), SAIL, compared to flat products, long product prices have held firm. From around ₹58,000 per tonne in June, flat product prices fell to ₹56,500-57,000 per tonne in July. August prices are almost the same as in July.

"However, we will see benefits accrue from middle of August," Tulsiani said during a post-earnings call. "Average purchases are expected to go up once the monsoons recede," he said, adding that the company would neither cut production in Q2 nor revise guidance on production and sales targets.

Export demand

July volume sales are around 1.4 million tonnes, indicating a demand turnaround, and post mid-August the numbers are expected to improve. He, however, did not comment on the price movement expectations.

Monsoons are seen as a lean period for steel demand; export demand — which accounts for of 10 per cent of SAIL's portfolio — has been depressed owing to levy of duty and global recessionary pressures.

"We have requested the Ministry to waive the tariffs. But there has not been much headway there," he said.

Releasing cash locked in working capital will reduce debt, said a report REUTERS

Coal price correction

Tulsiani had said Q1 profitablity was hit because imported coking coal costs remained high. However, with "price corrections", the benefits are expected to accrue in the later part of this quarter.

"We could see the benefits come in around middle of August onwards," he said.

A report by Motilal Oswal said it expects new coal prices to reflect in SAIL's Q2 profitability. "We believe margins should normalise in Q3 and improve in Q4," it said.

Gross debt increases

SAIL's gross debt, as on June 30, also increased substantially to ₹22,101 crore, up by ₹13,900 crore. The increase was primarily because of "rise in working capital requirements". Tulsiani said the company had to pay for imported coking coal at an elevated cost, due to which the debt increased.

"In addition, release of cash locked in working capital will ensure debt reduction in the next two quarters and help improve the valuation of the stock," the Motilal Oswal report said, adding that SAIL will benefit the most from this contraction in coking coal prices.